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[Home](#) > Coin Seigniorage and the irrelevance of the debt limit

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Coin Seigniorage and the irrelevance of the debt limit

Submitted by beowulf on Mon, 01/03/2011 - 5:12am

Departments:

[Department of Analytical Tools](#) [1]

Thread:

[Economic Apocalypse](#) [2]

Tags:

[beowulf](#) [3]

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Because letsgetitdone bugged me long enough, I can cross this off my to-do list. I'm sorry I wasn't able to transfer over the embedded links from the [FDL crosspost](#) [8].

* * *

*?But here is the point: **If our nation can issue a dollar bond, it can issue a dollar bill. The element that makes the bond good makes the bill good...** If the Government issues bonds, the brokers will sell them. The bonds will be negotiable; they will be considered as gilt edged paper. Why? Because the government is behind them, but **who is behind the Government? The people. Therefore it is the people who constitute the basis of Government credit. Why then cannot the people have the benefit of their own gilt-edged credit by receiving non-interest bearing currency?** instead of the bankers receiving the benefit of the people?s credit in interest-bearing bonds??*

Thomas Edison, quoted in [NY Times, Dec. 6, 1921](#) [9]

If you think about it, it does seem odd that the US Government is the monopoly supplier of US dollars and yet our politicians go through life thinking the government will run out of money unless it can borrow more. Of course that?s not true, the coins in your pocket are legal tender and yet were not issued against debt. They?re minted by the US Government, backed only by the gilt-edged credit of the American people, no one is paid interest on it and they don?t add a penny to the statutory debt. What?s more, the use of coins as legal tender is scalable, they could replace the use of Tsy debt sales. No, you wouldn?t have to carry more coins in your pocket. Nothing would change except Tsy would be credited by the Federal Reserve for the sale of interest-free Treasury coins (presumably of large denominations) instead of interest-bearing Treasury bonds.

The two great powers of a sovereign state are the monopoly of violence and seigniorage, the profits from the creation of money. If the federal deficit (that is, expenditures in excess of tax receipts) were funded by seigniorage revenue, not only would there be no debt service owed on the money, there'd actually be no deficit. Seigniorage (whether generated by the Federal Reserve or by the US Mint) is supposed to be booked by Treasury as "miscellaneous receipts", since the funds can be appropriated for other gov't uses, it actually reduces the deficit dollar for dollar. Looking into it, I found that while Federal Reserve profits are counted as a revenue source (larger than estate taxes and customs duties combined), US Mint profits are not. I sent a couple of emails to the Tsy Inspector General's office to point this out, but haven't heard anything back. I've copied below what I sent Tsy (changing the formatting a bit to merge the two emails). I go WAY into the weeds legally (?presumably in USSGL account, Acct Title: Seigniorage; Acct No 5795?), so I apologize for that in advance. Feel free to ask me to translate anything below into the English language. The bottom line is, the Secretary of Treasury already has the authority to create money without debt so there's no fiscal reason to raise the debt limit. What's more, since the Federal Reserve began paying interest on reserves in 2008, there's no longer a monetary reason to raise the debt limit either.

Circulating Coinage

Circulating coins are shipped to the Federal Reserve Banks (FRB) as needed to replenish inventory and fulfill commercial demand? Seigniorage is the difference between the face value and the gross costs of coins shipped. Seigniorage adds to the Federal Government's cash balance, but unlike the payment of taxes or other receipts, seigniorage does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the Federal Government's sovereign power to create money and the public's desire to hold financial assets in the form of coins. The President's Budget excludes seigniorage from receipts and treats it as a means of financing the national debt? p. 28, US Mint, 2009 Annual Report

My question is whether it's accurate, under current law, to state that coin seigniorage does not involve the transfer of financial assets from the public and whether the President's Budget should be excluding seigniorage from receipts when Congress directed the Secretary to sweep the "receipts" from the sale of circulating coins into "miscellaneous receipts" (which is where Federal Reserve seigniorage revenue has long been placed). I understand that Tsy adopted the "other financing source" definition of coin seigniorage years ago, at least since the time of President Johnson's 1967 Commission on Budget Concepts. Since the time of the Commission (and currently reflected in FASAB SFFAS No. 7), the US Mint has been on-budget with its seigniorage off-budget while the Federal Reserve System has been off-budget and its seigniorage (reflected in the net earnings refunded to Tsy) on-budget as part of miscellaneous receipts. Indeed, according to the CBO, in 2009 miscellaneous receipts (which are mostly but not solely Fed profits) were a larger source of federal revenue? that is, reduced the federal deficit by a larger amount? than estate/gift taxes and customs duties combined. (Table T-3). To put it another way, if the Federal Reserve sends money directly to the Tsy General Fund, it is counted on the budget. If the Federal Reserve sends money to the Tsy General Fund that stops in the US Mint Public Enterprise Fund first, it is not counted on the budget. That seems anomalous.

Leaving aside whether the nature of budget concepts changed after President Nixon took us off the gold standard (I'll outsource that issue to the estimable Warren Mosler), neither the US Mint Annual Report nor the President's Budget appear to reflect the statutory language in 31 USC 5136 (which in the mid 90s created the United States Mint Public Enterprise Fund). To backtrack a moment, transactions with the Federal Reserve are not considered intergovernmental transfers by Tsy since the Fed's deposit of earnings at Tsy are booked as nonexchange revenue received from "the public" and are deposited in miscellaneous receipts. Analogously, proceeds from the sale of govt property that is, an exchange of, say, Federal Reserve notes for a govt asset received by the Mint from the Federal Reserve (or from the public at large, since they too buy coins from the Mint), should be booked in the Mint PEF as exchange revenue received from "the public".

The point is, in section 5136, Congress characterizes the exchange of coinage produced ex nihilo by the US Mint for the face value equivalent in Federal Reserve notes (or more typically, by marking up the balance in Tsy's reserve account) as a "sale"? "Provided further, That the Fund may retain receipts from the Federal Reserve System from the sale of circulating coins at face value for deposit into the Fund". What's more, the statute also says, "at such times as the Secretary of the Treasury determines appropriate, but not less than annually, any amount in the Fund that is determined to be in excess of the amount required by the Fund shall be transferred to the Treasury for deposit as miscellaneous receipts". Unless Congress intended "receipts" from the sale to not mean exchange revenue and for "the public", "miscellaneous receipts" and ultimately "seigniorage" to have each have two different meanings depending on whether we're referring to the US Mint or to the Federal Reserve System, my suspicion is that Mint seigniorage and Fed seigniorage were intended to be treated the same for budgetary purposes.

If, in fact, Mint seigniorage is legally indistinguishable from Fed seigniorage as miscellaneous receipts revenue, it does offer an escape hatch (or more like a subway tunnel really) if Congress refuses to increase the statutory debt limit this spring. The Secretary has rather broad authority to mint coins, Congress was apparently feeling generous when it authorized platinum coins in 31 USC 5112(k) ("with such specifications, designs, varieties, quantities, denominations, and inscriptions as the Secretary, in the Secretary's discretion, may prescribe"). If deficit spending was paid for (eliminated actually) with miscellaneous receipts revenue generated by selling the Fed jumbo denomination coins, and since the Federal Fund Rate can now be pegged with Interest on Reserve payments in lieu selling Treasuries to drain excess reserves, Tsy could fund govt operations indefinitely without ever raising the statutory debt limit.

Coin sale proceeds received by the Mint Public Enterprise Fund seem to fall squarely into the category of "exchange revenue received from public". To quote from FASAB FSSAB No. 7:

"Exchange transactions with the public: revenue 270. Sales of goods and services. The cost of production for goods and services such as electricity, mail delivery, and maps is defrayed in whole or in part by revenue from selling the goods or services provided. The sales may be made by a public enterprise revolving fund (such as the Bonneville Power Administration)?"

Like the Bonneville Power Administration, the Mint Public Enterprise Fund is a "public enterprise revolving fund". I'd note that The President's FY 11 Budget, Sect. 11 Budget Concepts defines

?seigniorage? as:

?The profit from coining money. It is the difference between the value of coins as money and their cost of production. Seigniorage reduces the Government?s need to borrow. Unlike the payment of taxes or other receipts, it does not involve a transfer of financial assets from the public. Instead, it arises from the exercise of the Government?s power to create money and the public?s desire to hold financial assets in the form of coins. Therefore, the budget excludes seigniorage from receipts and treats it as a means of financing other than borrowing from the public.?

However Sect. 11 also defines ?public enterprise funds? as:

?revolving funds used for programs authorized by law to conduct a cycle of business-type operations, primarily with the public, in which outlays generate collections.?

Presumably these ?business-type operations? involve the collection of ?financial assets from the public?. Where this discrepancy arose, I think, was when in 1995, Congress passed (and the President signed) the Mint Public Enterprise Fund statute. Under that statute, the funds generated by coin sales to the Federal Reserve and public can be in one of two places, 1. The coin sale earnings can stay in the Enterprise Fund where it will be apart from the Treasury General Fund (presumably in USSGL account, Acct Title: Seigniorage; Acct No 5795); or later, 2. The Secretary can sweep the revenue ex costs out of the Mint PEF into miscellaneous receipts (presumably FAS Account Title: Receipt from Monetary Power; Acct No 0600); where it becomes part off the General Fund. There is a FAS Acct No 0610 also titled ?Seigniorage?. But it is for ?other financing? deposits which, at least since the PEF Statute, would not apply to Mint earnings since sales proceeds that go into a public enterprise revolving fund are, in fact, exchange revenue.

I?d add that it is to the same destination, General Fund as miscellaneous receipts (Acct No 0600), that the Federal Reserve transfers its earnings (which as noted above, make ?miscellaneous receipts? one of Tsy?s largest sources of revenue on the federal budget). Since the courts have held both the the Fed and the Mint to be nonappropriated fund instrumentalities, transferring the earnings from either of their separate and distinct funds into Treasury general receipts would presumably be nonexchange transactions from the public.

In *AINS, Inc. v. United States*, 56 Fed. Cl. 522 (2003); affm?d. 365 F.d 1333 Fed Cir. (2004), the Court, in the course of finding the Mint was a ?nonappropriated fund instrumentality?, noted that the revenue was generated (Bonneville Power Administration-like) from sales by a public enterprise revolving fund, and identified the destination of both Federal Reserve earnings and Mint earnings.

?Congress has clearly expressed this intent through its authorization of the Mint?s Public Enterprise Fund. By directing that all receipts from the Federal Reserve System and the public from the sale of circulating coins at face value must be deposited into a special fund, Congress has made clear that the Mint?s funds are to be kept separate and distinct from the general Treasury fund?

?The Board of Governors of the Federal Reserve Board, established as a NAFL in Denkler, has since 1947 established a policy to transfer excess earnings to the Treasury. See 33 Fed. Res. Bull. supp. app. 1-2 (May 1947). Congress in 2002 expressly required the Federal Reserve

Board to transfer any surplus for fiscal year 2000 to the secretary of the Treasury for ?deposit in the general fund of the Treasury.? 12 U.S.C. § 289(b)(1) (2000)?. Therefore, that excess funds are to be deposited in the Treasury as miscellaneous receipts has no bearing on whether the Mint, or any other agency, is a NAFI.?

What's more, two years ago the Mint, in the course of issuing a federal regulation authorizing civil fines for infringement of the Mint's trademark, stated that Mint ?seigniorage and profits? are deposited in the General Fund as miscellaneous receipts:

*?Pursuant to the United States Mint Public Enterprise Fund (PEF) statute, 31 U.S.C. 5136, all receipts from fines assessed under the regulation would be deposited in the PEF and the Secretary of the Treasury would transfer these amounts, along with regular United States Mint seigniorage and profits, to the General Fund as miscellaneous receipts. As **miscellaneous receipts in the Treasury?the drawing of funds from which are subject to appropriation by Congress?neither the Secretary of the Treasury, nor the Director of the Mint could be subject to ?possible temptation * * * when [their] executive responsibilities * * * may make [them] partisan to maintain the high level of contribution? from the assessment process provided for under the regulation. Cf. Ward v. Village of Monroeville, 409 U.S. 57, 60 (1972). Moreover, the amounts involved would nonetheless render any ostensible temptation inconsequential because the relatively small amounts that the United States Mint could be expected to receive in fines payable under 31 U.S.C. 333 would be de minimis when compared to the recent amounts (\$600-800 million) that the United States Mint annually has transferred to the General Fund.? 72 FR 60771 (2007) (emphasis added).***

Seeing as the Mint stated in the Federal Register that 31 USC 5136 allows the Secretary to deposit Mint seigniorage ?as miscellaneous receipts in the Treasury, the drawing of funds from which are subject to appropriation by Congress?, I would argued that it should be counted on the federal budget as revenue in like manner as Federal Reserve seigniorage, which as you know, is deposited as miscellaneous receipts in the Treasury, the drawing of funds from which are subject to appropriation by Congress.



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